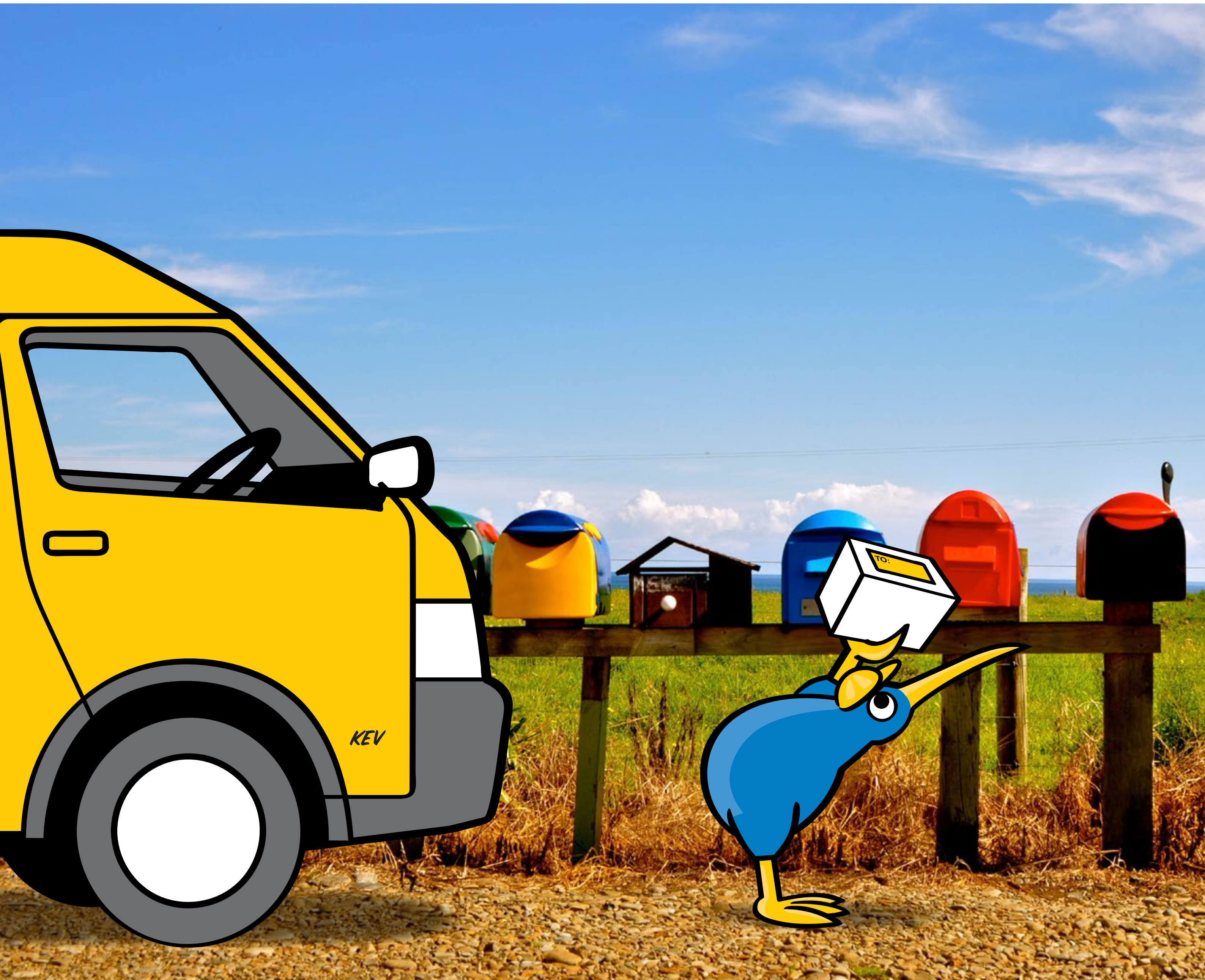
Trade Me Group Limited

Full Year Report

FOR THE YEAR ENDED
30 JUNE 2015



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Highlights

Revenue was up 11% year-on-year to a record $199.7m, again underpinned by strength in our trio of Classified businesses where revenue was up 16% on F14 to $99.6m. Our Other segment also recorded a revenue increase of 23% on F14. General Items revenue declined by 2%, but sales are back in positive territory.

EBITDA* for F15 was $134.4m, up 4% year-on-year. EBITDA was up 5% year-on-year excluding the losses from Harmoney.

Earnings was flat with net profit after tax of $80.2m for F15, up 0.1% year-on-year. However underlying net profit after tax (excluding fluctuations in interest rate swap values) grew 3% year-on-year to $81.8m.

Earnings per share for F15 was 20.20 cents, unchanged from F14.

A fully imputed final dividend of 8.5 cents per share will be paid on 22 September 2015. This follows on from the dividend of 7.7 cents per share paid in March 2015.

Our efforts in our General Items marketplace are generating results, and we've made good progress on core product improvements. Sales in the April-June quarter were up 2% year-on-year, led by new goods' activity which was up 5% year-on-year.

We recently launched a new business, Trade Me Insurance. It re-engineers buying home, car and contents insurance online.

Earlier in F15 we invested in Harmoney (peer-to-peer lending) and acquired Paystation (payments gateway and processing) and Viewing Tracker (rental property booking tool).

People: We've made two new appointments to our executive team in F15 with Trent Mankelow (Head of Product) and Stuart McLean (Head of Marketplace) joining us.

*EBITDA (a non-GAAP measure) represents earnings before interest, tax, depreciation and amortisation, as reported in the financial statements.

Commentary from the Chairman and CEO

Dear shareholders,

Thank you for your support as an investor in Trade Me.

We're pleased to deliver a result in line with our expectations, and consistent with our guidance over the past year.

Our result for the 12 months to 30 June 2015 reflects a year of encouraging progress, and we're seeing our efforts start to deliver returns.

We have continued to be careful and focused our resources and attention on areas where we expect the best return, in particular zeroing in on mobile, our General Items marketplace and Trade Me Property.

We've been working hard to make the online experiences we deliver better for Kiwis. We've been improving our products and strengthening our teams, and we're confident there are plenty of growth opportunities for us in the medium to long-term.

The numbers

In F15, Trade Me grew revenue to a new record of $199.7m, up 11 per cent on F14's $180.1m. Our EBITDA for F15 was $134.4m, up 4 per cent year-on-year. Excluding our share of losses in peer-to-peer lender Harmoney, EBITDA was $135.2m, and up 5 per cent year-on-year.

Trade Me's net profit after tax was $80.2m, up marginally on a year ago and reflecting our ongoing reinvestment in bolstering the company for the future. Underlying net profit after tax – excluding fluctuations in interest rate swap values – grew 3 per cent year-on-year.

Earnings per share was 20.20 cents, the same as in F14, and ahead of both F13 and F12.

We intend to pay a fully imputed final dividend of 8.5 cents per share on 22 September 2015. The record date for the dividend is 11 September 2015. This follows on from the interim dividend of 7.7 cents per share paid to investors on 24 March 2015.

Operating performance

The **Classifieds** businesses have continued to deliver strong results for investors, with revenue up 16 per cent on F14 to $99.6m. EBITDA also grew strongly for this segment, up 9% on a year ago to $68.6m.

Trade Me Motors enjoyed a lift in revenue (up 24 per cent year-on-year), helped by a full year contribution from the MotorWeb vehicle data business acquired in December 2013. Motors continues to be the market leader in its automotive category. We will be focused on growing this business in F16, with a number of new initiatives on the cards.

Trade Me Jobs also delivered an increase in revenue, up 14 per cent year-on-year, on the back of strong listings growth. A new listing page is being rolled out across the site and there have been product developments including Talent Chaser advertising and the ability to embed video in listings.

Trade Me Property has continued to ramp up its account management and presence in several regions around the country, and recently ran a 10th birthday advertising campaign. Off the back of our flexible pricing options and new features including video in listings and InsideView (like Google Street View for viewing the interior of a property), we're seeing some good progress. It remains the most visited real estate website in the country with more than double the audience of its nearest rival. Revenue was up 5 per cent year-on-year.

Gross merchandise sales in our **General Items** marketplace were subdued in the first half of the year, but we've seen some encouraging signs in the second half as product changes begin to take effect. These core product improvements have included the release of a new homepage with more relevant, data-driven content, a new image-rich search experience and a new listing page. Our efforts are beginning to generate results, with the number of sales increasing by 2 per cent year-on-year in the April-June quarter, led by new goods' sales growth of 5 per cent year-on-year.

We remain optimistic about our prospects in this segment, and we have several product developments set to land before Christmas.

In the **Other** category comprising our advertising, travel, dating, insurance comparison and payments businesses we saw revenue jump by 23 per cent and EBITDA jump up a healthy 11 per cent year-on-year respectively. Our online insurance comparison site LifeDirect has grown ahead of our expectations and our payments business Paystation has also performed very well.

Our **expenses** were up 25 per cent year-on-year, a lower rate than last year, but still significant. The main contributors to the increase were our two acquisitions, Motor Web and Paystation. The remainder of the expense growth included new staff costs (primarily to speed up our product development) and additional marketing.

We have been clear about the need for this increased investment in Trade Me's future growth prospects. We expect the rate of cost growth will continue to decline in F16.

Acquisitions and investments

We launched Trade Me Insurance on 14 August. Underwritten by and tailor made with local insurer TOWER, it delivers a streamlined, simple, good value online experience for New Zealanders buying home, contents, and car insurance. We believe it is NZ's most comprehensive online insurance offering to get a quote, buy insurance, make a claim and manage a policy.

In January 2015 we announced our investment in peer-to-peer lending platform, Harmoney. We acquired a 14.1 per cent stake for $7.7m. Harmoney was the first licensed peer-to-peer lender in New Zealand. We see Harmoney as a great fit for Trade Me, because like us it provides Kiwi consumers with a safe, trusted, scalable and efficient online platform to undertake a transaction. We see a lot of potential for P2P lending to work well in New Zealand.

In December 2014 we acquired Viewing Tracker, a small Wellington company that minimises hassle for tenants and property managers making arrangements to view rental properties. Founder Aaron Clancy joined the Trade Me Property team and we've begun to integrate this service into 'for rent' listings onsite.

In September 2014, we acquired Paystation, a Wellington-based online credit card processing and payments gateway founded in 2002. We see Paystation's expertise as complementary to Trade Me's core business and we think their experience can help us make trading on Trade Me faster and easier.

People

In July 2014, we consolidated our presence in Wellington with a move to a new building in Market Lane, having previously had teams in four different locations in the capital.

In December 2014, our expanding team in Auckland moved into a newly fitted out building in the central city and we're currently expanding again in the City of Sails. We have a small office in *The Press* building in central Christchurch.

We now have 464 staff (437 FTEs) at Trade Me. This is up from 355 staff (332 FTEs) a year ago and 424 staff (399 FTEs) in February 2015.

Two new faces joined our Executive team in F15. Trent Mankelow joined us as our inaugural chief product officer in October 2014. Trent is responsible for making sure we build the right things, and make them great. Stuart McLean joined Trade Me in February 2015 and is running our General Items marketplace business.

Outlook

We are set to deliver similar revenue growth in F16, with lower expense growth than F15 in percentage terms. We anticipate our EBITDA growth in F16 will be similar to last year, and that the second half of F16 will deliver a stronger financial performance than the first half.

We have bolstered our team, have better products, and improved sales and account management to ensure sustainable, strong growth. We continue to have great options in terms of organic growth and via acquisition.

We are confident and optimistic about our future.

David Kirk
CHAIRMAN

Jon Macdonald
CEO

Statement of comprehensive income
for the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
General Items		63,480	64,792
Classifieds		99,635	85,591
Other		36,579	29,721
Total revenue	13	**199,694**	**180,104**
Cost of sales		(10,967)	(7,724)
Employee benefit expense		(28,842)	(24,629)
Web infrastructure expense		(4,089)	(3,176)
Promotion expense		(9,434)	(7,360)
Other expenses		(11,135)	(8,496)
Total expenses	13	**(64,467)**	**(51,385)**
Earnings before interest, tax, depreciation, amortisation and associate		**135,227**	**128,719**
Share of earnings from associate	6	(846)	–
Earnings before interest, tax, depreciation and amortisation		**134,381**	**128,719**
Depreciation and amortisation	4.2, 11	(15,284)	(12,313)
Earnings before interest and tax		**119,097**	**116,406**
Finance income		2,267	1,915
Finance costs	15.3	(9,809)	(6,839)
Profit before income tax		**111,555**	**111,482**
Income tax expense	9	(31,387)	(31,371)
Profit		**80,168**	**80,111**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		9	–
Effective portion of changes in fair value of cash flow hedges	15.3	(144)	–
Other comprehensive income		**(135)**	**–**
Total comprehensive income		**80,033**	**80,111**
Earnings per share			
Basic and diluted (cents per share)	8	20.20	20.20

The above statement should be read in conjunction with the accompanying notes.

Statement of financial position
as at 30 June 2015

	Note	2015 $'000	2014 $'000
ASSETS			
Cash and cash equivalents	15.1	48,277	41,653
Trade and other receivables	10	14,444	11,775
Derivative financial instruments	15	–	101
Total current assets		**62,721**	**53,529**
Trade and other receivables	10	–	583
Derivative financial instruments	15	–	352
Property, plant and equipment	11	9,555	6,807
Intangible assets	4	808,713	804,515
Investment in associate	6	6,898	–
Deferred tax asset	9	1,325	884
Total non-current assets		**826,491**	**813,141**
Total assets		**889,212**	**866,670**
LIABILITIES			
Trade and other payables	7	19,101	14,169
Derivative financial instruments	15	723	–
Income tax payable	9	7,070	7,659
Total current liabilities		**26,894**	**21,828**
Provisions	7	4,550	4,102
Interest bearing loans and borrowings	7	165,884	165,784
Derivative financial instruments	15	630	–
Other non-current liabilities		423	484
Total non-current liabilities		**171,487**	**170,370**
Total liabilities		**198,381**	**192,198**
EQUITY			
Contributed equity	8	1,069,814	1,069,814
Share-based payment reserve	14.2	461	266
Other reserves		(485,872)	(485,737)
Retained earnings		106,428	90,129
Total equity attributable to owners of the Company		**690,831**	**674,472**
Total equity and liabilities		**889,212**	**866,670**

For and on behalf of the Board of Directors who authorised these financial statements for issue on 19 August 2015:

David Kirk
CHAIRMAN

Joanna Perry
CHAIR OF THE AUDIT AND
RISK MANAGEMENT COMMITTEE

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity
for the year ended 30 June 2015

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Retained earnings $'000	Other reserves $'000	Total equity $'000
As at 1 July 2013		**1,069,196**	**557**	**73,050**	**(485,737)**	**657,066**
Profit and total comprehensive income		–	–	80,111	–	80,111
Dividends paid	8	–	–	(63,032)	–	(63,032)
Supplementary dividends		–	–	(8,160)	–	(8,160)
Tax credit on supplementary dividends		–	–	8,160	–	8,160
Share based payments	14.2	618	(291)	–	–	327
As at 30 June 2014		**1,069,814**	**266**	**90,129**	**(485,737)**	**674,472**
Profit		–	–	80,168	–	80,168
Currency translation differences		–	–	–	9	9
Movement in cash flow hedge reserve		–	–	–	(144)	(144)
Total comprehensive income		–	–	80,168	(135)	80,033
Dividends paid	8	–	–	(63,869)	–	(63,869)
Supplementary dividends		–	–	(8,605)	–	(8,605)
Tax credit on supplementary dividends		–	–	8,605	–	8,605
Share based payments	14.2	–	195	–	–	195
As at 30 June 2015		**1,069,814**	**461**	**106,428**	**(485,872)**	**690,831**

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows
for the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Operating activities			
Profit before tax from continuing operations		111,555	111,482
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation of property, plant and equipment		3,179	2,852
Amortisation of intangible assets		12,105	9,461
Share-based payment expense		297	639
Doubtful debts expense		208	415
(Gain)/Loss on disposal of property, plant and equipment		(240)	29
Finance costs		9,809	6,839
Share of earnings from associate		846	–
Other		(531)	(35)
Working capital adjustments:			
Increase in trade and other receivables and prepayments		(2,101)	(2,251)
Increase in trade and other payables		1,950	920
Income tax paid		(23,813)	(22,514)
Net cash flows from operating activities		**113,264**	**107,837**
Investing activities			
Purchase of property, plant and equipment		(2,357)	(4,087)
Payment for purchase of intangibles		(14,402)	(9,350)
Investment in Harmoney	6	(7,744)	–
Business acquisition	5	(2,000)	(23,500)
Loan repayments made to the Group		250	400
Net cash flows (used in) investing activities		**(26,253)**	**(36,537)**
Financing activities			
Dividends paid		(72,474)	(71,192)
Interest paid on borrowings (including facility fees)		(7,913)	(7,312)
Net cash flows (used in) financing activities		**(80,387)**	**(78,504)**
Net increase in cash and cash equivalents		6,624	(7,204)
Cash and cash equivalents at beginning of period		41,653	48,857
Cash and cash equivalents at end of period		**48,277**	**41,653**

The above statement should be read in conjunction with the accompanying notes.

Notes to the financial statements
for the year ended 30 June 2015

1 Reporting entity and statutory base

Trade Me Group Limited (the "Company") is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX") and the Australian Stock Exchange ("ASX"). The Company is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The address of its registered office and primary place of business is Level 5, 2 Market Lane, Wellington, New Zealand.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group").

The nature of the operations and principal activities of the Group are to provide online marketplaces that connect people to undertake a transaction or form a relationship. The Group's businesses include providing a new and used goods marketplace, classified advertising for motor vehicles, real estate and employment, online advertising services and other ancillary online businesses.

2 Basis of accounting

Basis of preparation

The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities. They also comply with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000s).

Both the functional and presentation currency of the Company is New Zealand dollars ($). Transactions in foreign currencies are initially recorded in New Zealand dollars by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rate at balance date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Goods and Services Tax ('GST')

The financial statements have been prepared so that all components are stated exclusive of GST, except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of an asset or as part of the expense item as applicable; and
- trade receivables and payables, which include GST invoiced.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated. This requires management to estimate the future cash flows expected to arise from the Group's cash-generating units and a suitable discount rate. Refer note 4.

The provision for contingent consideration relating to business combinations requires judgement around the probability and quantum of payment. Refer note 7.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) as at the reporting date. Control is achieved where the Company has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Change in accounting policies and disclosures

On 1 January 2015 the Group elected to adopt hedge accounting for all new interest rate swaps entered into after 1 January 2015, which means fair value movements in the swaps will go through other comprehensive income. Changes in the fair value for all interest rate swaps entered into prior to 1 January 2015 will continue to be recorded within finance costs. Refer to note 15.3 for breakdown of fair value movements in interest rate swaps.

New standards, amendments and interpretations

There are no standards or interpretations that are effective for the first time this year that have had a material impact on the Group.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2015 and not early adopted

New standards, amendments and interpretations issued by the International Accounting Standards Board (IASB) and the External Reporting Board in New Zealand (XRB) have been published that will be mandatory for the Group's accounting periods beginning on or after 1 July 2016. None of these standards have been early adopted by the Group. The relevant new standards, amendments and interpretations include:

NZ IFRS 15, 'Revenue from Contracts with Customers'

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This standard provides a single comprehensive principles-based five step model to be applied to all contracts with customers. The standard replaces NZ IAS 18 'Revenue' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 although early adoption is permitted. The Group is yet to assess the impact of adopting NZ IFRS 15.

NZ IFRS 9 'Financial Instruments'

This addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in July 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income, and fair value through the income statement. The basis of classification depends on an entity's business model and the contractual cash flow characteristics of the financial asset.

Under NZ IFRS 9 greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'.

Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The standard is effective for accounting periods beginning on or after 1 January 2018 with early adoption permitted. The Group is yet to assess the full impact of adopting NZ IFRS 9.

There are other standards, amendments and interpretations which have been approved but are not yet effective. The Group expects to adopt these when they become mandatory. None are expected to materially impact the Group's financial statements.

3 Segment reporting

(a) Identification of reportable segments

The Group has determined its operating segments based on the reports reviewed by the Group's Chief Executive Officer to assess performance, allocate resources and make strategic decisions. The reportable segments are based on aggregating operating segments based on the similarity of the services provided.

The Group's reportable segments are as follows:

General Items

The General Items segment is our online marketplace business. Revenue is generated from listing fees, premium fees and success fees and performance is driven by both the number of completed transactions and the total sales value of completed transactions.

Classifieds

The Classifieds segment represents advertising revenue from each of our three classified advertising sites: Motors, Property and Jobs. Revenue is generated primarily from basic and premium listing fees.

Other

The Other segment reflects all other businesses, including advertising, travel, Pay Now, payments gateway, online dating, and online insurance comparison.

(b) Segment revenues, EBITDA* and reconciliation to profit before income tax

The following is an analysis of the Group's revenue and EBITDA from continuing operations by reportable segment.

	Revenue		EBITDA*	
Reporting segments	2015 $'000	2014 $'000	2015 $'000	2014 $'000
General Items	63,480	64,792	49,866	50,817
Classifieds	99,635	85,591	68,625	62,857
Other	36,579	29,721	16,736	15,045
Total for continuing operations	**199,694**	**180,104**	**135,227**	**128,719**
Reconciliation to overall result				
Share of associate earnings			(846)	–
EBITDA			**134,381**	**128,719**
Depreciation and amortisation			(15,284)	(12,313)
Finance income			2,267	1,915
Finance costs			(9,809)	(6,839)
Profit before income tax			**111,555**	**111,482**

*EBITDA (a non-GAAP measure) reflects earnings before interest, tax, depreciation and amortisation.

The accounting policies of the reportable segments are the same as the Group's accounting policies as outlined in the notes to these financial statements.

Segment revenue reported above represents revenue generated from external customers. Immaterial inter-segment revenues have been excluded from the above segment results.

The Group operates largely within New Zealand. The Group owns an Australian subsidiary, Motorweb Australia Pty Limited, which generates revenues in Australia, and the Group has international sellers generating revenues overseas, largely in the marketplace business. Revenues from foreign countries amounted to $5.0m (2014: $2.5m).

No single customer contributed 10% or more to the Group's revenue (2014: nil)

4 Intangible assets

	Goodwill $'000	Brand $'000	Software $'000	Development $'000	Other $'000	Total $'000
30 June 2014	746,602	32,696	11,782	11,991	1,444	804,515
30 June 2015	748,331	32,696	6,976	19,496	1,214	808,713

Initial recognition

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date. After initial recognition these intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Acquired software licenses and costs directly incurred in purchasing or developing computer software are capitalised as intangible assets when it is probable that they will generate future economic benefits for the Group. Website development costs include external costs, and wages and overheads that are directly attributable to the website development.

Goodwill arising from business combinations is initially measured at cost, being the excess of the sum of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss. After initial recognition, goodwill is measured at cost less accumulated impairment losses.

Impairment testing

Goodwill and brand are not amortised, but instead tested for impairment annually. At each reporting date, the Group assesses whether there is any indication that other intangible assets may be impaired. Where an indicator of impairment exists, or in the case of goodwill and brand annually, the Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

At balance date, there were no indications that any intangible assets were impaired.

4.1 Goodwill and Brand

	Note	Goodwill $'000	Brand $'000	Total $'000
Balance at 1 July 2013		730,703	32,696	763,399
Additions		15,899	–	15,899
Balance at 30 June 2014		746,602	32,696	779,298
Additions	5	1,612	–	1,612
Effect of movements in foreign exchange		117	–	117
Balance at 30 June 2015		748,331	32,696	781,027

Allocation of goodwill to cash-generating units

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than a segment based on the Group's operating segments determined in accordance with NZ IFRS 8 Segment Reporting.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Brand is not separately allocated to cash-generating units.

Management reviews the business performance for three reportable segments (refer note 3), being separately identifiable groups of cash-generating units. The following is a summary of the goodwill allocation to each cash-generating unit group:

Cash-generating unit group	2015 $'000	2014 $'000
General Items	295,663	295,663
Classifieds	368,409	367,616
Other	84,259	83,323
	748,331	**746,602**

The recoverable amount for the cash-generating units is determined based on value in use calculations. These calculations use cash flow projections based on the 2016 financial budgets approved by the directors extrapolated over a four-year period, discount rates of between 12%–17% per annum and a terminal growth rate of 2%. Management has also considered the Group's market capitalisation when performing the impairment assessment.

The calculations which are applied consistently against the cash-generating units, confirmed that there was no impairment of goodwill or brand during the year (2014: nil). Management believe that any reasonable possible change in the key assumptions including an increase in the discount rate applied or a reduction in future growth rates, would not cause the carrying amount to exceed its recoverable amount.

4.2 Other Intangible Assets

Amortisation and disposal

Other intangible assets are amortised on a straight-line basis over the estimated useful life of the specific assets as follows:

- Website development costs 33%–40%
- Software 20%–40%
- Customer relationships 20%

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

	Software $'000	Development $'000	Other $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2013	**12,830**	**7,927**	**376**	**21,133**
Additions	1,268	8,362	–	9,630
Acquisition as part of a business combination	10,454	–	1,618	12,072
Disposals	–	(631)	–	(631)
Balance at 30 June 2014	**24,552**	**15,658**	**1,994**	**42,204**
Additions	662	13,460	–	14,122
Acquisition as part of a business combination	452	–	–	452
Disposals	–	(2,431)	–	(2,431)
Balance at 30 June 2015	**25,666**	**26,687**	**1,994**	**54,347**
Accumulated amortisation				
Balance at 1 July 2013	**(6,379)**	**(1,517)**	**(261)**	**(8,157)**
Amortisation	(6,391)	(2,781)	(289)	(9,461)
Disposals	–	631	–	631
Balance at 30 June 2014	**(12,770)**	**(3,667)**	**(550)**	**(16,987)**
Amortisation	(5,920)	(5,955)	(230)	(12,105)
Disposals	–	2,431	–	2,431
Balance at 30 June 2015	**(18,690)**	**(7,191)**	**(780)**	**(26,661)**
Net book value				
Balance at 30 June 2014	**11,782**	**11,991**	**1,444**	**25,217**
Balance at 30 June 2015	**6,976**	**19,496**	**1,214**	**27,686**

5 Business Combinations

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a controlled entity is the fair value of the assets transferred and the liabilities incurred. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition-date. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with NZ IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, with the corresponding gain or loss being recognised in profit or loss.

5.1 Current year acquisitions

The Group gained control over the following businesses during the year ended 30 June 2015:

Business Acquired	Principal activity	Acquisition Date	Interest
Viewing Tracker	Online property management vacancy tracking system	15-Dec-14	100%
Face, Netspace Services & Paystation	Payment gateway, colocation, dedicated servers, managed services, web development and hosting	15-Sep-14	100%

The fair values of the identifiable assets and liabilities acquired for the acquisitions above, none of which were individually significant to the Group, were:

Assets and liabilities acquired at the date of acquisition:	$'000s
Software	452
Fixed assets	295
Other liabilities	(53)
Goodwill	1,612
Total identifiable net assets and liabilities attributable to the Group	**2,306**
Satisfied by	
Cash paid on acquisition date	2,000
Fair value of contingent consideration to be paid in September 2015 and 2016	306
Fair value of consideration paid	**2,306**

Goodwill reflects the value of the business that can't be attributed to separately identifiable assets such as the staff who joined on acquisition and future growth opportunities. None of the goodwill is expected to be deductible for tax purposes.

The consolidated statement of comprehensive income includes immaterial revenue and net profit for the year ended 30 June 2015, as a result of business combinations made during the year. If the acquisitions had occurred at the beginning of the reporting period, the consolidated statement of comprehensive income would have had no material change to revenue and profit for the year.

Acquisition-related costs included in other expenses in the statement of comprehensive income were immaterial.

5.2 Prior year acquisitions

In the prior year the Group gained control over two businesses, Life Direct and Motorweb, for total consideration of $27.6 million.

Revenue contributed by LifeDirect for the year ended 30 June 2014 was $2.9 million, while EBITDA was immaterial. Had the acquisition occurred on 1 July 2013, the prior year statement of comprehensive income would have included additional revenue of $0.9 million, while the additional EBITDA would have been immaterial.

Revenue contributed by MotorWeb for the year ended 30 June 2014 was $4.9 million, while EBITDA was $2.9 million. Had the acquisition occurred on 1 July 2013, the prior year statement of comprehensive income would have included additional revenue and EBITDA of $4.2 million and $2.2 million respectively.

6 Associates

On 12 January 2015, the Group acquired a 14.1 per cent stake in lending platform Harmoney Corp Limited (Harmoney), New Zealand's first peer-to-peer lending company, for $7.7m. Harmoney is an unlisted company incorporated in New Zealand.

Significant influence is held over Harmoney through the Group having a member on the Board of Directors.

No dividends have been received from Harmoney in the year ended 30 June 2015.

Harmoney has a 31 March reporting date. The balance sheet below reflects Harmoney's audited financial statements for the period ended 31 March 2015. The equity accounted earnings reflect Harmoney's management accounts from the date of aquisition to 30 June 2015.

	2015 $'000	2014 $'000
Balance sheet information for Harmoney:		
Current assets	9,053	–
Non current assets	806	–
Total assets	9,859	–
Current liabilities	1,785	–
Total liabilities	1,785	–
Equity	8,074	
Equity accounted earnings comprise:		
Revenues – 100%	2,378	–
Loss from continuing operations – 100%	(6,015)	–
Loss from continuing operations – Trade Me share	(846)	–

Investments in associates are accounted for using the equity method of accounting. Associates are entities over which the Company has significant influence and that are neither subsidiaries nor joint ventures.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, investments in associates are carried at cost plus post acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss and its share of post-acquisition reserve movements is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are not recognised in profit or loss, but instead are recorded as a reduction in the carrying amount of the investment.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the "share of earnings from associate" in the statement of comprehensive income.

7 Liabilities and other commitments

Trade and Other Payables

	2015 $'000	2014 $'000
Trade payables	9,710	5,503
Accrued expenses	5,372	5,258
Revenue in advance	2,146	2,008
Employee entitlements	1,873	1,400
	19,101	**14,169**

Provisions

	2015 $'000	2014 $'000
Provision for contingent consideration – Viewing Tracker	306	–
Provision for contingent consideration – LifeDirect	4,244	4,102
	4,550	**4,102**

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance date using a discounted cash flow methodology. The increase in the liability as a result of the passage of time is recognised in finance costs.

The fair value of the provision for contingent consideration arising from business combinations has been determined using the present value of a weighted average range of possible earn out payments based on the Group's assessment of the probability of achieving each of the targets within the range. The discount rates used are 4.86%–5.37% (2014: 5.37%). The effects on the fair value of risk and uncertainty in the future cash flows are dealt with by adjusting the estimated cash flows rather than adjusting the discount rate.

If the probabilities of reaching the revenue targets in the upper half of the range of possible payment hurdles were increased by 5% and those in the lower half decreased by 5%, or if the converse was applied there would be an immaterial change to contingent consideration. The provision has been reassessed at reporting date and no change has been made as a result, other than to unwind the present value discount.

Liabilities for wages, salaries and annual leave are recognised in the provision for employee entitlements and measured at the amounts expected to be paid when the liabilities are settled. The employee entitlement liability is expected to be settled within 12 months from balance date and is recognised in current liabilities.

Interest-bearing loans and borrowings

The Group has a $166 million revolving cash advance loan facility with Commonwealth Bank of Australia and Westpac Banking Corporation. $166 million was drawn down as at 30 June 2015.

Lender	Maturirity Date	2015 $'000	2014 $'000
Commonwealth Bank of Australia	11-Sep-16	116,000	116,000
Westpac Banking Corporation	11-Sep-16	50,000	50,000
Loan establishment costs		(116)	(216)
		165,884	**165,784**

The facility is guaranteed by the Company and its wholly owned subsidiary Trade Me Limited. The covenants entered into by the Group require specific calculations of the Group's net debt to EBITDA, and interest cover. There have been no covenant breaches.

The facility incurs interest based on market floating rates that are re-set every 90 days.

Interest-bearing loans and borrowings are initially measured at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

(a) Lease Commitments	2015 $'000	2014 $'000
Within one year	2,827	2,616
Later than one year but not later than five years	10,021	6,790
Later than five years	4,291	5,757
	17,139	**15,163**

The Group leases premises. Operating leases held over properties give the Group the right to renew the lease subject to a re-determination of the lease rental by the lessor.

Where the Group is the lessee, leases where the lessor retains substantially all the risks and benefits of ownership of assets are classified as operating leases. Net rental payments, excluding contingent payments, are recognised as an expense in profit or loss on a straight-line basis over the period of the lease. Operating lease incentives are recognised as a liability when received and subsequently reduced by an offset to rental expense and a corresponding reduction to the liability.

(b) Capital Commitments

The Group has no material capital commitments as at 30 June 2015 (2014: $nil).

Contingent liabilities

The Group has no material contingent liabilities as at 30 June 2015 (2014: $nil).

8 Share information

Movement in total shares on issue	2015 000's	2014 000's
Balance at beginning of period	**396,585**	**396,311**
Issue of restricted shares	415	280
Cancellation of restricted shares	(112)	(6)
Balance at the end of the period	**396,888**	**396,585**
Comprised of		
Restricted shares	819	516
Ordinary shares	396,069	396,069

All ordinary shares carry equal rights in respect of voting and the receipt of dividends. Ordinary shares do not have a par value. Restricted shares are the same as ordinary shares except they cannot be sold until they vest and convert to ordinary shares.

Earnings per share

The earnings and weighted average number of ordinary and restricted shares used in the calculation of basic and diluted earnings per share are as follows:

	2015	2014
Earnings used for the calculation of basic and diluted earnings ($'000)	80,168	80,111
Weighted average number of shares on issue (000's)	396,792	396,495
Basic and diluted earnings per share (cents)	20.20	20.20

Basic earnings per share amounts are calculated by dividing profit for the year by the weighted average number of ordinary and restricted shares outstanding during the year. Diluted earnings per share equals basic earnings per share, since there are no potentially dilutive ordinary shares.

Dividends paid or authorised

		2015 $'000	2014 $'000
Final dividend for 2013	at 8.3 cents per share		32,894
Interim dividend for 2014	at 7.6 cents per share		30,138
Final dividend for 2014	at 8.4 cents per share	33,313	
Interim dividend for 2015	at 7.7 cents per share	30,556	
Dividends declared and proposed after reporting date, but not recorded as a liability in these financial statements: 8.5 cents per share		33,735	

9 Tax

Income tax recognised in profit or loss	2015 $'000	2014 $'000
Tax expense comprises:		
Current tax charge	31,758	31,380
Deferred tax relating to the origination and reversal of temporary differences	(371)	(9)
Total tax charge	**31,387**	**31,371**

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit before income tax	111,555	111,482
Income tax expense calculated at 28%	31,235	31,215
Non-deductible expenses	330	91
Non-assessable income	(236)	–
Other	58	65
	31,387	**31,371**

Imputation credit account	2015 $'000	2014 $'000
Imputation credits available for use in subsequent periods	21,289	14,282

The imputation credit amount represents the balance of the imputation credit account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the provision for Income tax payable post balance date. The actual imputation credits available at balance date as determined by the Income Tax Act 2007 are $14,219,000 (2014: $6,678,000)

The income tax expense or benefit for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributed to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are recognised for temporary differences at balance date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are not recognised if the temporary difference arises from goodwill.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

10 Trade and other receivables

Current assets	2015 $'000	2014 $'000
Trade receivables	10,763	10,129
Provision for doubtful debts	(364)	(383)
Other	4,045	2,029
	14,444	**11,775**
Non-current assets		
Loans receivable	–	583

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Collectability of trade receivables is reviewed on an on-going basis and a provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, or amounts significantly overdue are considered objective evidence of impairment. There are no overdue debtors considered impaired that have not been provided for.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

11 Property, plant and equipment

	Note	Motor vehicles $'000	Computer equipment $'000	Plant and equipment $'000	Total $'000
Gross carrying amount					
Balance at 1 July 2013		**78**	**14,894**	**1,906**	**16,878**
Additions		1	1,905	2,253	4,159
Acquisitions as part of business combination		–	41	71	112
Disposals		–	(68)	(20)	(88)
Balance at 30 June 2014		**79**	**16,772**	**4,210**	**21,061**
Additions		–	4,162	1,589	5,751
Acquisitions as part of business combination	5	4	201	90	295
Disposals		(29)	(693)	–	(722)
Balance at 30 June 2015		**54**	**20,442**	**5,889**	**26,385**
Accumulated depreciation					
Balance at 1 July 2013		**(55)**	**(10,568)**	**(806)**	**(11,429)**
Depreciation		(9)	(2,593)	(250)	(2,852)
Disposals		–	25	2	27
Balance at 30 June 2014		**(64)**	**(13,136)**	**(1,054)**	**(14,254)**
Depreciation		(9)	(2,655)	(515)	(3,179)
Disposals		27	576	–	603
Balance at 30 June 2015		**(46)**	**(15,215)**	**(1,569)**	**(16,830)**
Net book value					
Balance at 30 June 2014		**15**	**3,636**	**3,156**	**6,807**
Balance at 30 June 2015		**8**	**5,227**	**4,320**	**9,555**

Property, plant and equipment is stated at historical cost less depreciation.

Depreciation on assets is charged on a straight-line basis to allocate the difference between their original costs and the residual values over their estimated useful lives, as follows:

Major depreciation categories are as follows:

- Plant and equipment 8%–21%
- Computer equipment 20%–40%
- Motor vehicles 21%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance date. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. When an item of property, plant and equipment is disposed of, the difference between net disposal proceeds and the carrying amount is recognised in profit or loss.

12 Subsidiaries

Details of the Company's subsidiaries at balance date are as follows:

Name of subsidiary	Principal activity	Place of incorporation	Ownership interests and voting rights 2015	2014
Trade Me Limited	Operate and manage all Trade Me platforms	New Zealand	100%	100%
Old Friends Limited	Non-trading	New Zealand	100%	100%
TMG Trustee Limited	Non-trading	New Zealand	100%	100%
Trade Me Comparisons Ltd	Online insurance comparison	New Zealand	100%	100%
Motorweb Australia Pty Limited	Online vehicle data services	Australia	100%	100%
Kevin's Australian Investments Pty Limited	Holding company	Australia	100%	100%
Paystation Limited	Payments gateway	New Zealand	100%	0%

13 Revenue and expenses

Other expenses

Other expenses include:

Remuneration of the auditors	2015 $'000	2014 $'000
Audit of annual financial statements	104	102
Review of interim (half year) financial statements	44	43
Preparation of greenhouse gas emmission reporting ('CarboNZero')	9	–
Remuneration market pricing	5	–
Total remuneration paid or payable to EY	**162**	**145**
Rent	3,028	1,436

Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured.

Member income

Income from members is recognised when either:

- members have their prepay accounts charged for using Trade Me services;
- members forfeit prepaid balances on the closing of accounts;
- manual processing fees are charged to members obtaining refunds of prepay accounts; or
- other fees are charged to members in accordance with Trade Me terms and conditions.

Other service income

The Group recognises income from customers other than member accounts, at the point at which the service is delivered.

Finance income

Interest revenue is recognised as interest accrues using the effective interest method.

Finance costs

Finance costs consist of interest and other costs incurred in connection with the borrowing of funds. Finance costs are expensed in the period in which they occur, other than associated transaction costs, which are capitalised and amortised over the term of the facility to which they relate.

14 Compensation of management personnel

14.1 Key management personnel

The remuneration of key management of the Group during the year was as follows:

	2015 $'000	2014 $'000
Short-term benefits	4,179	3,264
Share-based payments	155	334
Total compensation	**4,334**	**3,598**

14.2 Share-based payment plans

Certain employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments.

Equity-settled employee share plans

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted, and determined using an appropriate pricing model. The cost is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense at each reporting date until vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The Company grants restricted shares with a typical vesting period of three years to management, but this vesting period may vary where the restricted shares are awarded to retain an employee for a critical period. The restricted shares have all the rights attached to ordinary shares (including the right to dividends), but may be redeemed by the Company if the qualification criteria are not met.

The following table shows the number of restricted shares outstanding at the end of the period, the weighted average issue price, the weighted average fair value and the vesting date for reclassification of the restricted shares into ordinary shares:

Payment plan reference	Grant date	Outstanding at end of period	Weighted average issue price	Weighted Average Fair value	Vesting date
FY13 plan	1-Oct-12	191,552	$3.97	$2.14	30-Sep-15
FY14 plan	1-Oct-13	212,990	$4.45	$2.43	30-Sep-16
FY15 plan	1-Oct-14	395,768	$3.55	$1.89	30-Sep-17

Vesting criteria: Two performance hurdles described below will be used before vesting occurs:

Hurdle 1 – Will apply to 50% of the shares in each tranche

If the Company's total shareholder return (representing dividend per share plus increase in share price divided by initial share price) is in the top quartile of companies in the NZX 50 Index (the Index) over the vesting period to the vesting date, then 100% of shares will vest. For performance between median and top quartile, vesting will occur on a straight-line basis so that 50% of the shares vest for median performance and 100% vesting occurs for top quartile performance. No shares will vest if the total shareholder return is below the median in the Index or the participant is not in continuous employment at this date.

Hurdle 2 – Will apply to 50% of the shares in each tranche

If the growth rate of the Group's earnings per share equals or exceeds a compound annual rate over the 3 financial years ending on 30 June prior to the end of the vesting period of 12% per annum, then 100% of the shares will vest. For performance between 8% and 12% per annum, vesting will occur on a straight-line basis so that 50% of the shares vest for performance at 8%, and full vesting occurs for performance at 12%. No shares will vest if the performance return is below 8% per annum or the participant is not in continuous employment at this date.

Plan modifications or changes

The FY13 plan was initially split into two tranches with the first tranche of 58,880 shares due to vest on 30 September 2014. The vesting targets were not met and the Board agreed to push the vesting date out to 30 September 2015. There have been no cancellations to the plans during 2015 and 2014.

The expense recognised in the current period was $0.3 million (2014: $0.6 million), with a corresponding liability for PAYE of $0.1 million (2014: $0.3 million) and an increase in equity of $0.2 million (2014: $0.3 million).

15 Financial instruments

15.1 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and statement of cash flows comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Short-term deposits with an original maturity of greater than three months are also included within cash and cash equivalents if the term deposit can be terminated at an earlier date without incurring penalties. Cash and cash equivalents includes term deposits of $30 million (2014: $24 million).

15.2 Derivative financial instruments

The Group uses derivative financial instruments to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which are recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

The derivative financial instruments at balance date are all interest rate swaps, the details of which are reported below under interest rate risk.

15.3 Financial risk management

Financial risk management

In the normal course of business the Group is exposed to a variety of financial risks, which includes market risk, credit risk and liquidity risk. The Group's treasury policy recognises the unpredictability of financial markets and seeks to minimise the potential adverse effects of market movements. The management of these risks is performed in accordance with the treasury policy approved by the Board of Directors. This policy covers specific areas such as interest rate risk, foreign exchange risk, credit risk and liquidity risk.

Market risk

Interest rate risk

The Group's primary interest rate risk arises from bank borrowings which are reset every 90 days to market rates. The Group's treasury policy requires the use of derivative financial instruments to manage interest rate risk. In order to protect against rising interest rates the Group has entered into interest rate swap contracts under which it has a right to receive interest at floating rates and pay interest at fixed rates, where cumulative net settlement of interest is payable or receivable quarterly. Swaps in place cover $90m (2014: $90m) of the principal outstanding and mature over a three year period.

The notional principle amounts and period of expiry of the interest rate swap contracts are as follows:

	2015 $'000	2014 $'000
0–1 years	20,000	20,000
1–2 years	50,000	20,000
2–3 years	20,000	50,000
	90,000	**90,000**
Fair value interest rate swaps		
Current portion	(723)	101
Non-current portion	(630)	352

At balance date the Group had the following financial assets and liabilities exposed to New Zealand variable interest rate risk:

	2015 $'000	2014 $'000
Cash	48,277	41,653
Interest bearing loans and borrowings	(166,000)	(166,000)
Loans receivable	–	583
Interest rate swaps	(1,353)	453

If interest rates had moved by + / - 1%, with all other variables held constant, the Group profit before income tax for the year ended 30 June 2015 would have increased / decreased by $0.1 million (2014: decreased / increased by $0.5 million).

Credit risk

Exposure to credit risk arises from the potential default of the counterparty, with the maximum exposure equal to the carrying amount of the financial assets. The Group's credit risk arises from the Group's financial assets, which include cash and cash equivalents, loans and trade and other receivables.

30 June 2015	AA- and above $'000	Not rated $'000
Cash and cash equivalents	48,277	–
Trade receivables	–	10,399

30 June 2014	AA- and above $'000	Not rated $'000
Cash and cash equivalents	41,653	–
Trade receivables	–	9,746
Loans receivable	–	583

For banks and financial institutions only independently rated parties with a minimum long term Standard & Poor's rating of AA- are accepted. The Group's treasury policy also sets the maximum counterparty credit exposure to any individual bank or financial institution.

The Group has a concentration of credit risk with its cash and cash equivalents, which are held with three banks.

Trade and other receivables recognised in the statement of financial position consist of a large number of customers, and consequently there is no concentration of credit risk with respect to debtors.

The loans are secured over a number of interests including shares, and other property.

Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligation to repay its financial liabilities as and when they fall due.

The following table details the Group's remaining contractual maturity of its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rates, the undiscounted cash flows are derived from the interest rate at 30 June.

	Less than 6 Months $'000	6–12 Months $'000	1–3 Years $'000	Total $'000
2015				
Trade and other payables	19,101	–	423	19,524
Borrowings	3,768	3,768	167,487	175,023
Interest rate swaps	288	318	682	1,288
	23,157	**4,086**	**168,592**	**195,835**
2014				
Trade and other payables	14,169	–	484	14,653
Borrowings	3,884	3,884	175,301	183,069
	18,053	**3,884**	**175,785**	**197,722**

Hedge accounting

The Group designates and documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. At hedge inception (and on an ongoing basis), hedges are assessed to establish if they are effective in offsetting changes in fair values or cash flows of hedged items. The Group discontinues hedge accounting if (a) the hedging instrument expires or is sold, terminated, or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the hedge designation is revoked. Hedges are classified primarily as cash flow hedges.

Fair values

Financial instruments included in these financial statements include cash and cash equivalents, trade and other receivables, trade and other payables, interest bearing loans and borrowings and derivative financial instruments. The carrying amounts of these financial instruments are a reasonable approximation of their fair values.

Derivative financial instruments are classified as "fair value through profit or loss" and are categorised into one of three levels based on the quality of inputs used to determine fair value:

- Level 1–quoted prices in active markets for identical assets or liabilities
- Level 2–inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3–inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Derivative financial instruments are classified as level 2.

The fair value of derivative financial instruments has been determined using observable market interest rate data as at balance date.

Refer to below table, which shows movements in fair value of derivative financial instruments.

	2015 $'000	2014 $'000
Changes in fair value of interest rate swaps recognised in finance costs	(1,663)	400
Effective portion of changes in fair value of cash flow hedges recognised in other comprehensive income	(144)	–
(Loss)/gain in fair value of interest rate swaps	**(1,807)**	**400**

16 Events after the reporting period

Other than the final dividend disclosed in note 8, there have been no events after 30 June 2015 that require disclosure in these financial statements.

Chartered Accountants

Independent Auditor's report to the Shareholders of Trade Me Group Limited

Report on the Financial Statements

We have audited the financial statements of Trade Me Group Limited ("the company") and its subsidiaries (together "the group") on pages 6 to 28, which comprise the statement of financial position of Trade Me Limited and the group as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 461G(1) of the Financial Markets Conduct Act 2013. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion. Ernst & Young has provided other assurances services and remuneration advice to the group. We have no other relationship with, or interest in, Trade Me Group Limited or any of its subsidiaries. Partners and employees of our firm may deal with the group on normal terms within the ordinary course of trading activities of the business of the group.

Opinion

In our opinion, the financial statements on pages 6 to 28:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- present fairly, in all material respects, the financial position of the group as at 30 June 2015 and the financial performance and cash flows of the group for the year then ended.

Ernst & Young

19 August 2015
Wellington

A member firm of Ernst & Young Global Limited

Directory: Trade Me Group Limited

Registered office

Trade Me Group Limited
Level 5
2 Market Lane
Wellington 6011

Board of directors

David Kirk	Chairman
Gail Hambly	Non-Executive Director
Paul McCarney	Non-Executive Director
Sam Morgan	Non-Executive Director
Joanna Perry	Non-Executive Director

Executive team

Jon Macdonald	Chief Executive Officer
Jonathan Klouwens	Chief Financial Officer
Sarah Hard	Company Secretary
Fiona Ireland	Head of Human Resources
Nigel Jeffries	Head of Trade Me Property
Trent Mankelow	Chief Product Officer
Jimmy McGee	Head of Commercial
Stuart McLean	Head of Marketplace
Dave Wasley	Head of Platform & Operations

Investor information

The Trade Me investor relations website is at:
http://investors.trademe.co.nz/

Share registrar

If you have a shareholder-related query, please contact our share registrar, Link Market Services Limited:

New Zealand

Phone	(09) 375 5998
Email	enquiries@linkmarketservices.com
Address	PO Box 91976, Auckland

Australia

Phone	1300 554 474
Email	registrars@linkmarketservices.com.au
Address	Locked Bag A14, Sydney South, NSW

Auditor

Ernst & Young
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New Zealand